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SUBJECT: ALBANIA WALKS A FINANCIAL TIGHTROPE

REF: TIRANA 185

¶1. (SBU) According to sources in the Ministry of Finance, little has changed since reftel report on Albania's difficulties in securing a commercial loan to finance its USD 420 million budget deficit. The original plan was to finance about USD 100 million by selling domestic bonds and USD 320 million through commercial loans. Deutsche Bank and Alpha Bank (Greek) won a tender to syndicate the commercial loans, but have not been able to find underwriters. Each bank committed to providing USD 50 million, but at this time they have been able to attract only an additional USD 75 - 100 million. International banks such as Raiffeissen, JP Morgan and Credit Suisse are declining to participate despite the anticipated 12 - 13 percent interest the loan will likely cost. At a minimum, the GOA might get by with a loan package of 200 million USD. However, should Deutsche and Alpha banks only manage to raise closer to 150 million or less, the GOA will likely face a severe budget crunch come June 1, when much-promised increased salaries and pensions come due.

¶2. (SBU) Under normal conditions, the GOA might consider cutting expenses to make ends meet. However, the Prime Minister is pulling out all the stops to get re-elected, including major spending on huge, visible infrastructure projects, increased pensions and government salaries, and subsidized electricity. The Durres-Kukes highway will take the largest bite. The Bechtel consortium building the road has notified the GOA that it will bill 300 million euro this year to complete Albania's showcase highway connecting Kosovo to the Port of Durres.

¶3. (SBU) The GOA finds itself in a very risky situation:
-- banks continue to lose deposits, which may prevent them from buying new bonds and even force them to cash in their maturing bonds without rolling them over;
-- some of the planned privatization receipts of over 175 million euro may be delayed; and
-- revenues are declining at a faster rate than expenses.

In addition, the Ministry of Defense has budgeted USD 120 million to purchase six multi-role helicopters with a decision on the tender scheduled for early June. A postponement of the decision for any reason would make it look like the brand new NATO member doesn't have its act together.

¶4. (SBU) COMMENT: Berisha seems willing to risk it all to win the June elections. The only way his balancing act could be riskier would be if he wore a blindfold, although some think he already has one on. Nevertheless, the GOA has in the past shown an uncanny ability to avoid catastrophe, although usually just barely and at

the last minute. Privatization receipts could come in as planned, the banks could come up with USD 200 million in loans in the next two weeks, and bank deposits could level off. If the GOA winds up short, the PM could turn to the IMF, postpone the helo purchase, or export more electricity (potentially increasing blackouts), all of which would have political downsides. A partial default on the Bechtel payments or lek devaluation would have much more serious consequences, both economically and politically, as the June parliamentary elections approach.

WITHERS